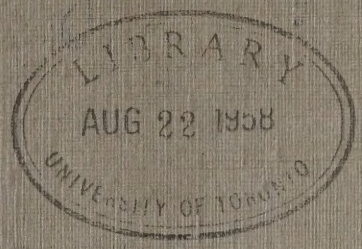
COPY FOR MR. J. ALLAN ROSS



HYDRO-ELECTRIC INQUIRY COMMISSION

GENERAL REPORT

GUELPH RADIAL RAILWAY

JOSEPH H. W. BOWER

SECRETARY

Guelph Radial Railway

INDEX TO SECRETARY'S REPORT

ON THE

GUELPH RADIAL RAILWAY

INDEX TO GENERAL REPORT

ON THE

QUEBEC RURAL RAILWAY

INDEX (Continued)

Toronto,
March 14, 1923.

Hydro Electric Inquiry Commission,
W. D. Gregory, Esq., Chairman,
Toronto, Ontario.

Re: General Report
Guelph Radial Railway.

Mr. Chairman and Gentlemen:-

In accordance with your instructions, a general report on the Guelph Radial Railway has been made along the general lines approved of by the Commission on January 2nd. The work has been done under my direct personal supervision as per your directions.

The reports of Messrs. Price, Waterhouse & Company and Messrs. Clarkson, Gordon & Dilworth have been used in the preparation of the report and in addition complete studies have been made of all evidence taken at the public hearing held in connection with the Railway. The report falls naturally into two distinct parts. The first part includes sections entitled "Chronological Chart", "Historical Sketch", "Physical", "General Economics" and "General Relations", which sections are a resital of facts together with explanatory matter. The second part entitled "Summary" is in effect a series of my own personal deductions and should be considered as such.

In reference to the first part of the report referred to above, it is pointed out that wherever use has been made of statements, figures or opinions given in reports by the auditors these have been carefully checked by the auditors and are completely concurred in by them.

The evidence and reports forming the basis of this report are appended hereto, and in order to facilitate reference to the documents in question on the right-hand margin of the report throughout will be found abbreviated references.

Yours very truly,

J. W. Sawyer.
Secretary

JWS/G.

GUELPH RADIAL RAILWAY

CHRONOLOGICAL CHART

The following chronological chart has been prepared with the object of showing the beginning and development of the Guelph Radial Railway together with the various circumstances leading up to the taking over of this Railway by the Hydro-Electric Power Commission under the Guelph Railway Act 1921. In this chart, the Hydro-Electric Power Commission is referred to as the Commission.

1894 Guelph Railway built by George Sleeman.

1902 Railway purchased by City of Guelph for $78,000.00.

1912

July 11th Following negotiations an agreement is completed whereby the Grand River Railway Company (a subsidiary of the Canadian Pacific Railway) is to take over operation of Guelph Radial Railway for twenty-five years, etc.

Aug. 11th By-law to confirm this agreement submitted and defeated.

Guelph requests investigation into System by Hydro-Electric Power Commission.

November Commission report submitted to Guelph.

Guelph Council decides to transfer Railway to Commission. Campaign started by Commission to have two necessary by-laws passed, one to provide for taking over of the Railway, the other its inclusion in a Radial System.

1 9 2 0

January	Both by-laws passed, but general radial scheme not proceeded with. This necessitates new submission to the people. Commission apply for legislation by which Railway can be taken over and operated separately. This legislation refused.
Dec. 8th	Further negotiations result in completion and signing of new agreement satisfactory to all parties.

1 9 2 1

Jan. 1st	By-law approving agreement passed.
April 27th	Agreement approved by Order-in-Council.
May 1st	Railway formally transferred.
May 3rd	Agreement confirmed by legislation (Guelph Railway Act, 1921.)

HISTORICAL SKETCH

Under the provision of the Guelph Railway Act 1921 (11 George V., Chapter 22), the Hydro-Electric Power Commission of Ontario was granted authority to take over all the assets, undertakings and properties of the Guelph Radial Railway Company, and to operate the Railway according to the terms of the agreement dated December 8th, 1920.

This Railway, built in 1894 by George Sleeman, had been purchased by the City of Guelph in the year 1902 pursuant to an arrangement whereby the outstanding capital stock was purchased for $30,000.00 and the bonded indebtedness of $48,000.00 was assumed. Subsequent to this the Railway System was increased by extensions and betterments from time to time until in 1919 it was said to have a value of approximately $200,000.00. During the period of the City's ownership of the System, the management and administration was carried out by a local Commission for a time, and subsequently by a Committee of the Municipal Council.

City Manager's letter 21/2/23.

Br. p.52

Ev. 1111

The Railway, under this management, appeared never to have been able to meet its operating and fixed charges. There had always been deficits in the operation of the System.

Ev. 1179

In the year 1919, the Railway Committee of the City Council together with the City Manager and the Mayor, Mr. Carter, approached a local Canadian Pacific Railway man, on behalf of the City, to ascertain whether assistance could be

Ev. 1111

obtained from that quarter to enable the road to be placed on a paying basis. It is to be noted that the City of Guelph has an agreement with the Canadian Pacific Railway in connection with the Guelph Junction Railway running from the City to Guelph Junction,- a distance of sixteen miles,- by which the City has a yearly revenue, amounting in 1921 to $86,000.00. As this arrangement had been a profitable one for the City, it was considered that some arrangement might be made with the Canadian Pacific Railway whereby an outlet could be obtained to the south (and to Puslinch Lake, a property owned by the City), which would connect with the Grand River Railway owned by the Canadian Pacific Railway, running from Hespeler to Port Dover. In this way a connection would have been obtained with Brantford, Paris, Simcoe and Port Dover.

Ev. 1212

Ev. 1227 1228

Ev. 1112

A tentative agreement was drawn up as the result of these negotiations between the Grand River Railway Company, the City of Guelph and the Guelph Radial Railway Company on July 11th, 1919. In this agreement the Grand River Railway Company not only undertook to extend its line of railway from the Town of Hespeler to the City of Guelph and connect it with the Guelph Railway but to expend $16,500.00 on necessary repairs to the existing System. The management was to be undertaken by the Grand River Railway Company. Work on the lines was to be commenced as soon as possible and the agreement was to last for twenty-five years. The net profits of the Guelph Radial

Railway were to be divided equally between the Grand River Railway Company and the City. Any deficit, of course, was to be borne by the City, but any purchases of rolling stock or improvements had of necessity to be submitted first to the City Council for approval, and if this approval was withheld then to the Ontario Railway Board. Fares were fixed at five cents, six for twenty-five cents during certain hours, and ten children's tickets for twenty-five cents, which rates were to be maintained subject to increase by legislation or the Ontario Railway and Municipal Board. Accounts were to be adjusted yearly and provision was made for a renewal at the expiration of the twenty-five year period. The terms of this agreement, however, of necessity had to be submitted as a by-law for approval of the electors of the City of Guelph. This by-law was submitted on August 11th, 1919, and was defeated by a substantial majority. The Hydro Radial Railway Association and the Chairman of the Hydro-Electric Power Commission took a very active part in opposing it.

Br. p.37.

Ev. 1213 Br. p.4,12.

On September 2nd, 1919, a resolution was passed by the Guelph City Council requesting the Hydro-Electric Power Commission to investigate the operation of the Railway. This investigation was carried out and a report submitted to the City of Guelph in November, 1919. This report dealt at length with the condition of the Railway, pointing out that the roadbed generally was in poor condition, the ties bad, the

Br. p.52.

steel generally was in fair condition, bonding bad, etc. Attached to this report was an estimate by which the twenty-four minute service could be improved to a ten-minute "headway" by the purchase of new equipment costing approximately $97,000.00. The cost of putting the existing tracks and overhead construction in operating condition was estimated at $50,000.00 and a further sum of $50,000.00 was estimated to be expended in improvements and betterments over three or four years following, making in all a total of $197,000.00. Br. p.58.

This report of the Chief Engineer of the Commission stated that the Guelph Radial Railway would incur a loss of from $5,000.00 to $17,000.00 per annum, so long as it was operated as a System by itself, but that "if the line were operated as a part of the proposed Hydro Electric Railway between Hamilton, Kitchener and Guelph . . . the interurban line should be able to credit the Guelph Radial Railway with sufficient sum annually for use of Guelph tracks to allow the Guelph Radial Railway to meet all of its capital and operating charges". Br. p.61.

Following the submission and discussion of this report an agreement was prepared by which the Railway was to be transferred to the Commission's management subject to the necessary legislative authority. This agreement was submitted to the electors in January, 1920. At the same time the standard Hydro-Electric Railway agreement providing for the construction of a Hydro-Electric railway line connecting Br. p.4.

Hamilton, Galt, Kitchener, Preston, Elmira and Guelph, for a part of which the City of Guelph was to be responsible, was also submitted to the electors. Both of these by-laws carried by large majorities, but, owing to the fact that the radial scheme was not proceeded with, it became impossible for the Commission to take over the Guelph Railway. The Commission, however, approached the Provincial Legislature with a request for the necessary legislative authority permitting the taking over of the Guelph System, and operating it as a separate line under the by-law passed, but this request was not granted. Consequently, it became necessary to submit another by-law before the necessary transfer could be made. F. 272A p.5.

A new agreement was prepared, and after considerable discussion, a form satisfactory to all parties was approved, the agreement being dated December 8th, 1920. This was ratified by the electors of Guelph in January, 1921. A clause in this agreement necessitated the ratification of the agreement by a special Act of the Legislature and consequently the Guelph Railway Act, 1921, was passed and assented to by the Lieutenant-Governor on May 3rd, 1921. The formal transfer of the System to the Commission was accomplished May 1st, 1921. F. 272A p.6.

Since the Railway has been operated by the Commission very extensive rehabilitation has been done, eight new one-man cars have replaced the equipment formerly used, and a ten-minute service is given instead of a twenty-minute service. F.W. p.3.

The fares have been increased from a cash fare of five cents, to a cash fare of six cents, six tickets for thirty-five cents or twenty tickets for one dollar. P.W. p.13.

PHYSICAL

The Railway comprises an electrical street railway within the City of Guelph, together with short lines extending to the Ontario Agricultural College and to one or two other points in the vicinity of the City. As of October 31st, 1921, the property comprised chiefly:-

10.05 miles of track
7 closed passenger cars
2 open passenger cars
2 work cars
1 sweeper
1 electric locomotive

During the past year the Commission has purchased and put into operation eight one-man safety cars to replace the other passenger cars which will be either sold or scrapped in due course. P.W. p.3.

The purchase agreement provided that the Commission was to supply "electrical power or energy for operation of the railways at rates consistent with those charged to municipal corporations".

Since the date of acquisition, the Railway has obtained its power from the City of Guelph and paid for same on the following basis:

$1.25 per H.P. per month on maximum demand, plus
1/2 cent per K.W.H. on actual consumption. Mr. Clark HEPC.

GENERAL ECONOMICS

SOURCES OF INFORMATION

The following review of the general economics of the System is based on information obtained from the reports submitted by Messrs. Price, Waterhouse & Company, Auditors, and Messrs. Clarkson, Gordon & Dilworth, Auditors, together with evidence given at the public hearing in connection with the System.

PURCHASE PRICE

The Hydro-Electric Power Commission of Ontario purchased the Railway System from the City of Guelph as at May 1st, 1921, under the authority conferred by the Hydro Electric Railway Act and according to the terms of an agreement dated December 8th, 1920. This agreement was confirmed by the Guelph Railway Act of 1921. P.W. p.4.

Under the terms of this agreement the Commission purchased from the City of Guelph all the assets of the Guelph Radial Railway free from liability and including freehold and leasehold lands with certain exceptions noted in the agreement, all plant, machinery, rolling stock, franchises, patents, etc., and all outstanding shares of the capital stock of the Guelph Radial Railway Company. The consideration for the acquisition by the Commission of such assets was $150,000.00, payable,

including interest at 4½% per annum, in instalments of all $11,700.00 each year for twenty years in half-yearly payments on May 1st and November 1st. P.W. p.4.

Under the terms of the purchase agreement and the Guelph Railway Act, it is provided that the Commission may issue bonds to the amount of $150,000.00 and also that this sum might be increased from time to time with the consent of the municipal corporation of the City of Guelph to cover the capital cost of extensions and improvements. P.W. p.4,5.

Pursuant to this authority the Commission issued bonds for $150,000.00 bearing interest at 6%, maturing May 1st, 1931, for the purpose of rehabilitating the System and extending it. Under authority of Section 5, of the Guelph Railway Act, which in effect confirms and validates Paragraph 7 of the agreement, the City of Guelph was authorized to issue debentures not exceeding $300,000.00 maturing May 1st, 1971, and bearing interest at 6% payable half-yearly, which debentures were to be deposited with the Commission as collateral security for the purchase price of $150,000.00 assumed by the Commission and the $150,000.00 6% debentures of the Commission issued for the rehabilitation of the System. These underlying debentures can be sold by the Commission if the revenues derived from the operation of the Railway are insufficient in any year to meet operating and working expenses, administration expenses, interest charges, sinking fund and renewal provisions, and the instalments payable under the purchase agreement. P.W. p.5.

This Act also authorized the Commission to create additional issues from time to time as needed for extensions and betterments, of the System, with the consent of the municipality, and also authorized the City of Guelph to issue and deposit with the Commission debentures equivalent in amount to any increase in the bonds issued subsequently by the Commission for these purposes.

APPRAISAL OF PROPERTIES

Prior to the purchase of the Railway, a valuation was prepared by the Engineers of the Commission of which $15,603.00 was included for parts having no apparent tangible value. The values assigned to the various classes of assets as of May 1st, 1921, as valued by the Engineers of the Commission were as follows:

Capital Assets	As valued by the Engineers of the H.E.P.C. as at May 1st, 1921.	
Engineering and superintendence . .	$ 4,954.00	
Right-of-way.	875.00	
Track and Roadway Construction. . .	71,385.00	
Electric Line Construction.	7,848.00	
Real Estate used in Operation of Road	2,154.00	
Buildings and Fixtures used in Operation of Road	17,206.00	
Power Plant Equipment	500.00	
Shop Tools and Machinery.	1,814.00	
Cars.	10,136.19	
Electrical Equipment in Cars. . . .	12,330.00	
Miscellaneous Equipment	243.00	
All other, including intangibles. .	15,603.00	P.W. p.7.
T o t a l	$ 144,698.19	

From the above it would appear that the intangibles at time of purchase amounted to $15,603.00, made up by the item on page 12, "All other, including intangibles".

The difference of $5,301.81 between the Capital Assets at May 1st, 1921, and the purchase price represented materials and spare parts not included as Capital Assets. P.W. Ex.1,

The investment in Capital Assets as at September 30th, 1922, amounted to $373,491.27, made up as follows:-

Engineering and Superintendence . .	$18,417.32
Right-of-way.	603.17
Track and Roadway Construction. . .	192,434.29
Electric Line Construction.	11,163.88
Roadway Machinery and Tools	4,096.13
Distribution System	5,206.14
Real Estate used in Operation of Road	2,184.00
Buildings and Fixtures used in Operation of Road	23,061.09
Power Plant Equipment	500.00
Shop Tools and Machinery.	2,006.89
Cars.	59,080.91
Electrical Equipment in Cars. . . .	35,746.18
Miscellaneous Equipment	1,487.38
All other, including intangibles. .	17,429.22
T o t a l	$ 373,491.27

C&AD 192a S.2.

From the above it will be seen that the amount expended by the Commission in construction and rehabilitation work from the date of acquisition, May 1st, 1921, to September 30th, 1922, was $228,793.08. From the latter date to January 31st, 1923, an additional amount of approximately $37,000.00 has been expended, bringing the total to approximately $265,700.00.

The report of the Chief Engineer of the Commission dated November 1st, 1919, estimated a cost of $197,000.00 for putting the existing tracks and overhead construction in operating condition and providing necessary new equipment. The expenditures, therefore, exceeded the estimate by approximately $68,700.00 or 35%.

COMMISSION'S INVESTMENT

The total investment of the Commission in the Railway as at September 30th, 1922, amounted to $397,294.80, made up as follows:

Amount payable to City of Guelph under terms of purchase agreement of December 8th, 1920	$150,000.00
In respect of $150,000.00 6% bonds maturing 1931, issued and sold by Commission for purpose of rehabilitation of Railway	150,000.00
In respect of cash advances to the Railway being part of the proceeds of a demand loan of $115,000.00 obtained from Bank of Montreal on security of a second issue of the Commission 6% bonds in amount of $150,000.00 maturing May 1st, 1931	97,294.80
	$397,294.80

The City of Guelph was not asked by the Commission to issue underlying debentures as security for the bond issue of the Commission deposited with the Bank of Montreal as security to the demand loan of $115,000.00.

RESERVE FOR RENEWALS

During the first six months of operation the amount of $1,998.75 was charged in the operating cost for renewals. F.W. p.11.

Shortly after the acquisition of the System an entire rehabilitation of the road was commenced and during the last fiscal year of operation no provision with respect to renewals has been made. As in the Sandwich, Windsor & Amherstburg Railway System, a minute of the Commission on December 13th, 1922, provided that no reserve for renewals should be charged during the rehabilitation of a railway system.

SINKING FUND

No provision for sinking fund for the retirement of the bonds issued by the Commission has been included in the cost of operation. Under the terms of the purchase agreement the provision for sinking fund is not required to be made until the expiration of ten years from May 1st, 1921. F.W. p.12.

Both issues of bonds of the Commission mature on May 1st, 1931. The first issue of $160,000.00 was sold for the purpose of rehabilitation of the Railway whereas the second issue of $150,000.00 was not sold, but was pledged to the Bank of Montreal as collateral security to a demand loan of $115,000.00. It will, therefore, be seen that refinancing will be necessary in connection with the retirement of the first issue, and that the demand loan for which the second

issue was pledged may be called at any time.

CONTINGENCIES

No provision has been made in the accounts of the Railway in respect of contingencies.

OPERATING RESULTS

The total loss to October 31st, 1922, including instalments on account of purchase price payable to the City of Guelph by the Commission, but not taking into consideration provision for renewals for 1922, was $34,225.64 made up as follows:

Deficit for 6 months ending Oct.31,1921 -	$10,651.32
Deficit for year ending October 31,1922 -	23,574.32
	$34,225.64

CG&D. 192a S.1. P.W. p.12.

Attention is drawn to subsection 3, of Section 5, of the Guelph Railway Act, which provides that "in the event of the revenue derived from the operation of the Railway being insufficient in any year to meet operating and working expenses, with administration expense, interest charges, sinking fund and renewal provision and the instalments payable under the purchase agreement, the corporation of the City of Guelph shall make payment to the Commission of any deficit".

The above deficit of $34,225.64 for the eighteen months ending October 31st, 1922, payable by the City of Guelph includes the sum of $17,550.00 payable by the Commission to the City of Guelph on account of the purchase

price as follows:-

Instalment due November 1,1921	-	$5,850.00
Instalment due May 1st, 1922	-	5,850.00
Instalment due November 1,1922	-	5,850.00
		$17,550.00

From the above it will be seen that the net loss incurred by the City of Guelph from May 1st, 1921, to October 31st, 1922, was $16,675.64.

Up to October 31st, 1922, the City of Guelph has paid to the Commission an amount of $10,651.32 representing the deficit from operation for the six months ending October 31st, 1921, and the Commission has paid to the City of Guelph amounts aggregating $11,700.00 representing two of the three instalments of $5,850.00 each due to the City of Guelph from the Commission under the terms of the purchase agreement. The net amount, therefore, due from the City of Guelph as at October 31st, 1922, amounted to $17,724.32 as follows:

Deficit from operations for year ending October 31st, 1922.	$23,374.32
Less - Instalment of November 1st, 1922, payable to City of Guelph by the Commission.	5,850.00
Net amount due Commission from City at October 31st, 1922.	$ 17,724.32

Had provision for renewals been made in the year ending October 31st, 1922, on the same basis as that used in the previous six months, a further operating charge of approximately $6,600.00 would have been made which is based on depreciable plant. Ev. 1103

Sinking fund payments are not required during the first ten years' operation of the Railway, but had such payments

been made on a basis of forty years in respect to the retirement of the $150,000.00 6% bonds outstanding, an annual charge of $1,573.00 would have resulted, which for the eighteen months' operation would have amounted to $2,357.00.

The additional charge for renewals would have increased the operating deficit to October 31st, 1922, to $40,825.64, and had provision for sinking fund been required the deficit would have been further increased by $2,357.00.

Interest charges against the Railway for the year ending October 31st, 1922, exclusive of amounts in respect to the purchase price, amounted to $8,476.43 of which $2,359.21 was capitalized and the balance of $6,117.22 was charged against operations. With the complete rehabilitation of the Railway and the issue of $300,000.00 6% bonds, the interest charges against operations will amount to approximately $18,000.00 per annum or an increase of $11,882.78 which, of course, will have the effect of augmenting the annual deficits correspondingly.

No provision has been made for contingencies since the acquisition of the Railway by the Commission.

INSURANCE.

The insurance premiums paid to October 31st, 1922, both fire and fidelity were as follows:-

Six months ending Oct.31st,1921 . . .	$856.69
year ending October 31st, 1922 . . .	2,497.53
	$3,354.22

Details of insurance in force are as follows:

Fire - Buildings	$161,000.00
Burglarly, Messenger and Office Robbery	3,200.00
Accident - Maximum for one accident . .	10,000.00
Maximum for one person . . .	5,000.00
Boiler	25,000.00
Liability under Workmen's Compensation Act	Maximum according to the Act.

TAXES

When the City of Guelph took over the Railway in 1902, the road was exempt from taxes under the franchise granted to Sleeman when the road was built. In view of the continued deficits the City has never taxed the Railway except for certain local improvement charges for paving and watering since 1909.

The taxes since 1920 have been as follows:

1920	-	$2,518.20	City Manager's letter 21/2/23.
1921	-	3,176.79	
1922	-	3,176.81	

The taxes for the year 1922 were unpaid at date of February 21st, 1923.

FARES

On November 1st, 1922, the straight five cent fare or six tickets for twenty-five cents was changed. The new schedule now in operation provides for a cash fare of six cents, twenty tickets for one dollar, or six tickets for thirty-five cents. Children's fares are three cents. P.W. p. 12, & 13.

[illegible]

[illegible]

[illegible]

GENERAL RELATIONS

Mr. J. A. McAndrew, K. C., has prepared a resume of the Guelph Railway Act, 1921, and many of the important points have already been detailed in the section of this report entitled "General Economics". The following are extracts from his resume:

"The Guelph Radial Railway Company was a party to and executed the agreement, but the agreement contains no covenant or agreement on its part to sell, transfer or dispose of its assets, undertakings and properties. The Municipal Corporation of the City of Guelph, although the owner merely of the shares of the capital stock of the Railway Company, agreed to sell the assets, undertakings and property of the Railway Company, which it had no power to do. However, by The Guelph Railway Act, 1921, (11 George V, Chapter 22) the agreement was 'confirmed and declared to be legal, valid and binding upon the Municipal Corporation of the City of Guelph and the ratepayers thereof, the Hydro-Electric Power Commission of Ontario and the Guelph Radial Railway Company, anything in any general or special Act of this Legislature or in any by-law passed under any such Act to the contrary notwithstanding.'"

"What has been effected by the proceedings adopted, the agreement made and the Legislation enacted amounts simply to this:- The City of Guelph owning all the shares of the capital stock of The Guelph Radial Railway Company has transferred these shares to The Hydro-Electric Power Commission of Ontario; all the assets, undertakings and

property of the Guelph Radial Railway Company, although certain lands were excepted in the agreement, have been by Legislation vested in the Commission. These assets, undertakings and property in accordance with the provisions of The Hydro-Electric Railway Act and the agreement are vested in the Commission in trust for the Corporation, the Commission having a lien thereon for all money expended by the Commission under the agreement. The Commission pays to the Corporation $150,000.00 in instalments, and the Corporation repays this to the Commission, which in the meantime has a lien for the amount on the Railway property and on the debentures of the Corporation. The Province has guaranteed the bond issue of the Commission, which bond issue is a charge upon and secured by the Railway, and all the assets, rights and privileges, revenues, works, property and effects belonging thereto. The Province does not collect the tax provided by Subsection 7 of Section 4 of The Corporation Tax Act. The Province has in effect pledged its credit and refrained from collecting revenue it would otherwise receive in order that the Corporation of the City of Guelph may place the operation of a Railway within the Municipality in the hands of The Hydro-Electric Power Commission of Ontario.

The desire and intention of the Corporation might more simply and effectively have been accomplished by the election by the Corporation as shareholder of the Railway of members and officers of the Power Commission to constitute a Board of Directors of the Railway Company."

SUMMARY

ORIGINAL NEGOTIATIONS

In the year 1919 the City of Guelph owned and operated a street railway built in 1894. The Railway had never paid its way, though efforts had been made to increase the revenue by making extensions from time to time, and it is not surprising that it was allowed to fall into a very bad state of repair.

The yearly deficit was a concern to members of the City Council, so it was decided to discuss the situation with a local representative of the Canadian Pacific Railway. The City already had an agreement with this Company in connection with the Guelph Junction Railway, which was built by the City and operated by the Company, and the agreement had resulted in the City receiving a return in that year of $86,000.00 on its investment of $171,000.00. With this novel experience in mind, it was natural for the Council to go to the Company for a solution of the problem. R. p.4.

The Grand River Railway is a subsidiary of the Canadian Pacific Railway, operating radial lines in Preston, Waterloo, Kitchener, Galt and Hespeler, and connecting these towns, by another subsidiary, the Lake Erie and Northern, with Paris, Brantford, Simcoe and Port Dover. When members of the Guelph Council decided to approach the Canadian Pacific Railway they started a movement which led to an agreement being made

with the Grand River Railway.

The agreement in question is referred to later in more detail; briefly it provided that the Grand River Railway was to manage the Guelph Railway and build a line connecting it with the town of Hespeler.

On the 11th of August, 1919, a by-law to confirm this agreement was submitted to the electors and defeated.

Apparently a vital question in the minds of the electors was one raised by Mr. J. W. Lyon, an influential man in the affairs of the City and President of the Guelph Junction Railway for seventeen years. His view of the matter was that the Canadian Pacific Railway was not entering into this agreement through its subsidiary for the sole purpose of helping a harassed Council to overcome difficulties with street cars, but that the Company intended to divert freight from the Guelph Junction Railway to the Grand River Radials, which would in future connect Guelph to Port Dover, and thus rob Guelph of the yearly revenue from the steam road and increase the revenues of the Grand River Railway and its parent the Canadian Pacific Railway. Ev. 1225

Another factor which may have contributed in no small measure to the defeat of the by-law was the thought that by entering into an agreement with the Grand River Railway, the City would in effect turn over the control of its streets to a private corporation.

But probably the most effective reason for the defeat was the campaign conducted by Sir Adam Beck and the Hydro-Electric Railway Association. In the words of Mr. J. M. Taylor, another prominent citizen, "The Hydro organization got to work, the papers immediately dropped pushing the Canadian Pacific contract and it was voted down".

Ev. 1213

It is of course impossible to form a definite opinion as to the wisdom of the City in voting against the proposed agreement with the Grand River Railway, but it should be noted that the Company's proposition appeared to be a favourable one for the City. The Company was to spend $16,500.00 on rehabilitation of tracks and overhead works, and was to build at its own expense a railway from Hespeler to Guelph with a spur to Puslinch Lake, the City providing land owned by the City as required. If there were profits from operation they were to be divided equally between the City and the Grand River Railway, if deficits the Guelph Company had to bear them. The fares were to remain at five cents, with six tickets for twenty-five cents during certain hours.

By this arrangement the City would have had the benefit of experienced management by the Grand River Railway, and connection through Hespeler with radials to Preston, Waterloo, Kitchener, Galt, Paris, Brantford, Simcoe and Port Dover, as well as to Puslinch Lake, a pleasure ground, which at present can only be reached from Guelph by road, and as far as deficits

were concerned, it is probable that they would have been less under the new management than before especially with the additional traffic that would be likely to result from the Radial connections. The diversion of traffic from the Guelph Junction Railway, referred to by Mr. J. W. Lyon as one reason why the City should not enter into such an agreement, was possible but it appears more probable that, if the Canadian Pacific Railway and its subsidiary, the Grand River Railway, had any ulterior motive as has been suggested, their object was to secure the Guelph Railway and thus prevent development of radial competition.

The diversion of freight while possible in theory would not have been easy to put into effect, as the radials over which the freight would be taken pass through the main streets of prosperous towns and it is not probable that their inhabitants would consent to the innovation. Loop lines would of course have overcome this difficulty but taking everything into consideration it does not appear probable that the Canadian Pacific Railway would have benefitted greatly by such a policy if it were contemplated.

It should also be remembered that a railway connecting Guelph with a number of attractive towns might by its own operations alone prove a wise investment for the Company. Municipalities such as Kitchener, Preston and Galt owe their prosperity to no small extent to the radials which connect them and it is reasonable to believe that Guelph would also have

benefitted in the future by the connection.

The Hydro-Electric Power Commission had shown interest in Guelph's street railway problem by opposing the agreement with the Grand River Railway, and had outlined the benefits which would accrue under the administration of the Commission, so by the end of the same year the Council decided to transfer their railway to the Commission and a campaign was started by the Commission to have two by-laws passed, one to provide for the acquisition of the Railway by the Commission, the other to include the Railway in a Hydro radial scheme. The Commission in a report to the City outlined three schemes for the operation of the road, all of which contemplated yearly deficits running from $6,000.00 to $17,000.00 so long as the road was operated alone. It was pointed out, however, that if the road were operated in conjunction with the proposed Hydro-Electric Railway between Hamilton, Kitchener and Guelph, it should be able to meet its capital and operating charges. Both by-laws were passed but, owing to the fact that the radial scheme was not proceeded with, the Commission was in effect left with the Guelph Street Railway. R. p.6.

Application was made to the Legislature during the Session of 1920 for sanction for the purchase of the Railway by the Commission and refused.

A year later a new agreement was submitted to the electors and passed, and this agreement was confirmed by the Guelph Railway Act, 1921.

PURCHASE PRICE

As pointed out in "General Economics", according to the terms of the Guelph Railway Act, 1921, the Commission agreed to purchase and the City agreed to sell the Railway for the sum of $150,000.00 payable, including interest at 6½% per annum, in instalments of $11,700.00 in each year for twenty years. In turn the City agreed with the Commission to bear the cost of acquiring, equipping, operating, maintaining, repairing, etc., the Railway and its property and works as established by the Commission.

While a special Act was passed to validate the agreement between the City of Guelph and the Commission, it should be noted that Clause 6 provides that the provisions of the Hydro Electric Railway Act, 1914, and amendments thereto shall also apply.

REHABILITATION

As pointed out on page 6, a report prepared by the Engineers of the Commission in November, 1919, estimated the expenditure required for rehabilitation at $197,000.00, and as at January 31st, 1923, the expenditure for this purpose amounted to approximately $265,700.00. The expenditures therefore exceeded the estimate by approximately $68,700.00 or 35%. At the public hearing held in Guelph on the 9th of November, 1922, witnesses who formerly had taken part in the administration of the Railway appeared to be impressed with the elaborate scale

R. p.14

upon which the work had been carried on, and other witnesses seemed to think that the work could have been more efficiently handled. Apparently the Commission carried out its usual policy of doing work along the most permanent lines, but in support of the contention of certain witnesses who considered the work inefficient, it may be pointed out that, according to the evidence of the City Engineer, the Commission offered the City $500.00 to do certain paving and that the City did the work for $165.00 and billed the Commission accordingly. This instance appears to show that whoever estimated the cost for the Commission was not familiar with this particular work, or that the cost of work done by the Commission's men was estimated on a much higher basis than that on which similar work could be done by employees of the City. Ev. 1195.

The Chief Engineer of the Commission pointed out in his evidence that the original estimate of $197,000.00 covered only the putting of the road in operating condition, and that, when the road was taken over, it was found that it would be economy to rehabilitate the road rather than put it in operating condition only. Ev. 1144.

RESULTS OF OPERATION

The total loss to October 31st, 1922, including instalments on account of purchase price payable to the City of Guelph but not including provision for renewals for 1922 was $34,225.64. The deficit for the year ending October 31st, 1922, was $23,574.52 or 36% more than the maximum $17,000.00 R. p.16.

yearly deficit estimated by the Commission's Engineers. Had provision been made for renewals in 1922 an additional operating charge of $6,600 would have been incurred, bringing the deficit for the year to $30,174.32, and the accumulated deficit for eighteen months' operation to $40,825.64. R. p.17.

SINKING FUND RESERVE

Under the terms of the purchase agreement the provision of sinking fund is not required to be made until May 1st, 1931. R. p.15.

Both issues of bonds of the Commission mature on May 1st, 1931. The first issue of $150,000.00 was sold for the purpose of rehabilitation of the Railway whereas the second issue of $150,000.00 was not sold, but was pledged to the Bank of Montreal as collateral security to a demand loan of $115,000.00.

If sinking funds had been set up to retire the bonds on the basis set forth in the Guelph Railway Act, a further annual charge of $1,578.00 would have been incurred, thus bringing the deficit including renewals mentioned above for the year 1922 to approximately $31,700.00 and the accumulated deficits for eighteen months' operation to approximately $43,000.00.

The Guelph Railway Act differs from the Power Commission Act in respect of the creation of a sinking fund to repay the investment in the works, etc.

The Power Commission Act provides for the deferment of sinking fund payments for a period of five years, and requires the municipal corporations to pay as a part of the cost of power an annual sum with interest at 4% per annum sufficient to form in the next ensuing thirty years a sinking fund to repay the advances made by the Province. The Guelph Railway Act and the Hydro Electric Railway Act extend the deferment period to ten years and the period of creating a sinking fund for the repayment of the investment in the works, etc., to forty years after the expiration of the deferment period. Thus, under the Guelph Railway Act two benefits accrue to the Municipality of Guelph, namely, a longer deferment period and a longer period of creating the sinking fund, which have the effect, with money at 4%, of reducing the charges from 1.8% to 1% which amounts to a reduction of approximately 60%. As the $180,000.00 of debentures issued for rehabilitating the Railway mature on May 1st, 1931, and prior to the date as of which any sinking fund's accumulations are required to be made, these bonds must be refunded by another issue.

RESERVE FOR RENEWALS
AND CONTINGENCIES

As in the case of the Sandwich, Windsor & Amherstburg Railway, a minute of the Commission dated December 13th, 1922, provided that no reserve for renewals should be charged during the rehabilitation of a railway system.

Our Auditor has stated that such practice is, in principle, wrong, and renewal reserve should have been charged from the commencement on some fair and equitable basis. Where an enterprise is in operation and at the same time being partially constructed and rehabilitated the proper procedure is to make a division of the capital, charging renewals and contingencies against that portion in operation, and eliminating renewals and contingencies on that portion still under construction, the interest in the first case being charged to operation and the interest in the second case being capitalized and charged against construction.

In order that the Railway may be on a sound operating basis reserves for renewals should be set up and carried along year by year in the usual way. There are probably few public utilities that depreciate more and in which the question of obsolescence of equipment enters more fully than electric railway properties. The average wear and tear on roadbed and equipment is very great and obsolescence of rolling stock is a matter of such apparent evidence that it requires no further comment in supporting a renewal account that will take care of such costs.

As pointed out on page 18 of this report insurance is carried by the Commission in respect to the properties, and to a certain extent this insurance provides for losses

which may be included under the general heading "Contingencies". It is pointed out, however, that the total amount of liability insurance recoverable is comparatively small, amounting to a maximum for one accident of $10,000.00. Consideration should be given to the desirability of the Commission accumulating premiums and carrying its own insurance, and, at the same time, setting up a contingencies fund that would take care of extraordinary losses.

PARKS

In December, 1919, Sir Adam Beck addressed a public meeting at the Opera House in Guelph and, according to the report in the Guelph Daily Herald, said he did not believe in increased fares, and had asked the engineers to base the estimates in Guelph on the present fares, at that time a straight five cent fare or six tickets for twenty-five cents. On the same subject, the following is taken from an editorial in the Guelph Mercury dated December 9th, 1919:

> "The matter of fares was another stumbling-block, some of the aldermen thinking that these might be jumped beyond all reason and the public put to inconvenience thereby, forgetting that Sir Adam Beck had stated that the Hydro Engineer figured that the present fares would be ample."

F. 272A p.17.

As pointed out on page 19 of this report the cash fares were increased from five to six cents on November 1st, 1922, or an increase of 20%. It has been pointed out that, as

twenty tickets may still be purchased for one dollar, the fares have not been increased for those who purchase tickets in quantity. This is, of course, correct, but the car users as a whole are paying a substantially increased fare. The average fare paid by all passengers in the year ending October 31st, 1922, was 4.91 cents, whereas for four months ending February 28th, 1923, the average fare was 5.43 cents. F.W. verbal

TAXES

There is no reference in the Guelph Railway Act to assessment and taxation. As pointed out on page 19 of this report the City has never taxed the Railway except for certain local improvement charges for paving and watering since 1909, amounting in the year 1922 to $3,176.81. The municipality is, therefore, losing a very substantial amount each year and consequently deficits are borne by the car users and non-users alike, inasmuch as the deficits must be met by the municipality.

EVENTUAL OWNERSHIP OF PROPERTY

As already pointed out the municipality of Guelph must issue and deposit debentures with the Commission as collateral security for the purchase price of the Railway, and any bonds issued by the Commission for the purpose of providing funds for improvements and extensions. These underlying debentures may be drawn upon by the Commission

if the municipality fails to meet its obligations with respect to fixed charges or operating losses, such operating losses to include provision for renewals, contingencies, sinking funds, purchase price instalments and so forth. With the payment of an annual instalment on account of the purchase price of the Railway and the payment of sinking fund after the ten-year deferment period, the Municipality of Guelph acquires a growing equity in the Railway properties which will reach a complete equity at the end of forty years. Inasmuch as the municipality is responsible for operating deficits, to some extent their bonds should remain in the hands of the Commission as security that operating deficits will be met, but as the instalments on account of the purchase price are made, and the sinking fund grows, it would appear to be only fair to the municipality that at definite periods a certain proportion of their bonds should be returned to them, the Commission retaining a proportion thereof considered adequate and necessary to offset any operating deficits that might occur.

Consideration of this matter does not appear to have been taken care of in any way by the Guelph Railway Act, and of course no such provision was made in the Power Commission Act inasmuch as the basis of responsibility is on an entirely different plane. It would appear, therefore, desirable that definite consideration be given to the passing of amendments to the Act which will take care of this situation.

GENERAL

In the report on the Sandwich, Windsor and Amherstburg Railway it was pointed out that consideration should be given to the desirability of having a Commission specially appointed to control the operation of the Railway Systems now being operated by the Commission.

The development and sale of power present problems of an entirely different nature from those arising from the control of transportation facilities, and it is doubtful if proper attention is given to the latter, the relative value of which is comparatively insignificant.

* * * * * * * * * * * * * *

In conclusion it is well to review the circumstances surrounding the transfer of the Railway to the Commission.

The campaign conducted by the Hydro-Electric Power Commission and the Hydro Electric Railway Association in Guelph prior to the vote being taken in January, 1920, had for its foundation the development of Guelph as an important unit in a radial system. Apparently no effort was spared to impress the electors with the benefits they would derive from having their railway operated by the Commission and at the same time having it form a part of the Commission's radial scheme.

The inducements described to the electors may be illustrated by the following advertisement inserted in local

papers on December 29th, 1919:

> "REMEMBER - Guelph is offered a partnership with other Municipalities in a system of Hydro-Electric Railways that will make Guelph grow, that will pay us $150,000 for our Street Railway, that will give us a REAL street railway with REAL SERVICE, that will give us the outside connections we need, that will give us a line to Puslinch Lake, and that will not cost the taxpayer One Dollar."

In the light of future events it is well to note particularly the phrase in this advertisement "that will pay us $150,000 for our Street Railway", this inducement had evidently been impressed on the electors for earlier in the same month the following sentence appears in the editorial column of a local paper,-

> "We obtain a ten minute service, an up-to-date road, and $150,000.00 in cash."

It has already been stated that both by-laws were passed in January, 1920, but that because of the fact that the radial scheme was not proceeded with, it was necessary for the City to submit a new by-law the following year, which was passed and became part of the Guelph Railway Act, 1921.

There is a difference between the agreement of 1919 and that of 1920 and it is a very important one. The 1919 agreement provided for the City receiving $150,000.00 for the Railway from the Commission, the 1920 agreement contained the same provision, but an additional clause to the effect that the City agreed to bear the cost of acquiring the Railway so according to the 1920 agreement the City has to provide the

Commission with the funds which the Commission pays to the City for the Railway.

If this rather unusual arrangement was fully understood by the electors, there is nothing further to say, they voted in favour of the by-law and have what they voted for and presumably are satisfied. It does not appear however that the details of the 1920 agreement were given the same prominence and explanation as those forming the agreement of 1919, and it would appear probable that the campaign of 1919 still remained fresh in the minds of the electors and that those who did not study the new agreement carefully would still have in mind the thought that the City was to receive a handsome sum for a railway which was in a very bad state of repair and of practically no value. What the City actually has received from the Commission is a completely rehabilitated road, management by the Commission, an increase of one cent on the cash fare, responsibility for the payment of $265,000.00 spent by the Commission on rehabilitation, and a net loss for eighteen months' operation of $16,675.64, which together with the purchase instalments gives a total deficit of approximately $34,200.00, and, as pointed out on page 18, had charges for renewals been made in the year 1922, the total deficit would be approximately $40,800.00

The sum of $150,000.00 which the City receives for the Railway, and which was one of the inducements dangled before the eyes of the electors in the campaign of 1919, proves after consideration to be no inducement at all, for the City gains nothing by receiving back from the Commission its own $150,000.00.